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EDITORIAL DEPARTMENT NOTE

The first article in this issue of the *Bulletin* emphasizes a point which all industrial accountants will need to emphasize in the postwar period. It is "different costs for different purposes." For too long and in too many cases industrial accountants have operated under the assumption that once the cost of a product has been determined the job is done; they have failed to appreciate that maximum service to management requires that costs be developed in line with the use to be made of them. Different costs are needed for inventory valuation, pricing, cost control, and other purposes. In his article on cost accounting fundamentals, Dr. Mason discusses the types of cost information needed in connection with four uses of costs which he lists.

Dr. Perry Mason, author of our first article, is Professor of Accounting at the University of California. He is presently on leave from the University and is serving as Regional Price Economist for OPA in San Francisco. Dr. Mason is a C. P. A. of Michigan and California and holds the Ph.D. degree from the University of Michigan. In addition to his teaching experience in economics and accounting at the University of Michigan, University of Kansas, Antioch College, and the University of California, he has practiced public accounting in Toledo, Ohio, and Ann Arbor, Mich., and since 1942 has been connected with the San Francisco office of OPA. Dr. Mason is the author of *Fundamentals of Accounting*, published by The Foundation Press and *Principles of Public Utility Depreciation*, published by the American Accounting Association.

Today many companies are giving serious thought to ways and means of obtaining improved cost control in the postwar period. Standard cost systems have suffered during the war, and attention is now being directed to the revamping of standards and their use for the control of postwar costs. The second article in this issue of the *Bulletin* describes the way in which one company, the Armstrong Cork Co., utilizes standard costs for control purposes. It should be of interest and help to anyone concerned with ways and means of making more effective the control provided by standard costs.

The author of this article is Thomas H. Patterson, Supervisor of Cost Accounting for all Armstrong domestic factories. His training in accounting and business administration was obtained through correspondence instruction from La Salle Extension University. In his 28 years with the Armstrong Cork Co., Mr. Patterson has served successively as Cost Clerk, as Cost Accountant for the Floor Products Manufacturing Division, as Assistant Chief Cost Accountant for the domestic factories, and as Supervisor of Cost Accounting. Mr. Patterson has been active in the management of the Lancaster Chapter, which he is currently serving as President.

Articles published in the *Bulletin* present many different viewpoints. In publishing them the Association is not sponsoring the view expressed, but is endeavoring to provide for its members material which will be helpful and stimulating. Constructive comments are welcomed and will be published in the Forum Section of the *Bulletin*.

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SOME FUNDAMENTALS OF COST ACCOUNTING

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THERE are many ways in which the fundamentals of cost accounting can be presented, but we can explore the more significant principles of the subject if we associate them with the purposes of cost accounting. That is, having decided what information we need and what problems are to be solved, we can organize our principles and procedures in an attempt to get useful answers. The basic concepts of cost accounting are found in such purposes or functions as these:

1. Inventory valuation.
2. Determination of selling prices.
3. Elimination of unprofitable items.
4. Improvement of efficiency.

Inventory Valuation

Probably the most obvious need for cost accounting is in connection with inventory valuation. Every time a manufacturing plant comes to the end of an accounting period it must be able to compute the cost of goods sold, its inventory of goods in process, and its inventory of finished product in order to prepare its financial statements and close its books for the period. The calculation of unit costs of product so that a dollar value can be assigned to the closing invenories, or, to put it in a way more consistent with perpetual inventory techniques, so that the amount of cost of goods sold can be determined, is an almost indispensable and a highly useful application of cost accounting technique. It is not, however, the most important function since it is not far above the level of routine accounting or bookkeeping in its significance. We have to compute inventory values just as we have to compute bank balances and trial balances, but this is not a major contribution to the internal management and control of production which, after all, constitute the heart of business operations. Beautiful sets of books and records and well-prepared financial statements, like a good appearance and good health, are fine things to have, but they

in themselves do not insure a profitable operation. This does not mean that we should neglect and adopt a careless attitude toward inventory valuation, since the calculation of net income is clearly an important matter, but after making careful computations for this purpose, we must realize that we have, after all, taken only the first step and have merely done a part of the job that cost accounting is capable of doing. Altogether too often we seem to consider our job done when the inventory figures and operating statements have been ground out.

The general principles which we follow in connection with inventory valuation must coincide with those adopted for the purpose of net income determination. The most common approach which we follow is that no profit should be shown until the sale takes place. This means that we have to keep track of the original cost of everything until it disappears from the enterprise. We record material used at its original cost, labor cost at what we paid for the labor service regardless of its efficiency or whether it was paid for at straight time or overtime rates, depreciation on the original cost of the assets, and so on. This is not such a bad principle to follow since the goal of most business is making a profit by the sale of its product, and until it is sold we have no assurance of either a profit or a loss. Also, it is usually the simplest calculation since we can generally use the book figures without adjustment.

Conservatism in Inventory Valuation

Of course, we are seldom satisfied with an easy, simple principle, and we are apparently so fearful of inaccuracies in our calculations that we often confuse the results by adopting the admittedly inconsistent variation commonly described as "cost or market, whichever is lower." This always presents the danger that we are dropping out of the role of accountants and are trying to be psychologists or psychic mediums when we try to use "cost or market." When prices are falling we realize, and rightfully so, that the current profit and loss figures may be misleading, or at least that we are omitting an important fact if we do not call attention to the point that when the present inventories are sold, they probably will not yield their usual sales value or even their book cost. But what do we do? Instead of merely noting what we have observed, we often drop the inventory value, anticipating and bury-

ing the loss without saying anything definite about it. We give the stockholders a bit of invisible protection against themselves.

On the other hand, when prices are rising and we know just as definitely that when the present inventories are sold they will realize more than the usual sales value, we act like a censor of military communications and in our own superior judgment keep this good news from the stockholders. And we do all this in the name of conservatism when actually all we accomplish is to lower the profit of one period and raise that of the next by the same amount. It would be far better to adopt a consistent accounting procedure and then to supplement the financial statements with comments and calculations which fully disclose any other pertinent facts or predictions which we may wish to make. We do not like distorted and controlled publicity on political or military matters. Why should we attempt to control the psychological reactions of the readers of our financial statements?

Costs Includible in Inventories

The computation of inventories or of cost of goods sold on an original cost basis may be relatively simple as compared with other possible valuation bases, but it is true here as in many other accounting situations that no two accountants would arrive at precisely the same results and they might be quite widely different. As to material, first-in, first-out, weighted average cost, and last-in, first-out are all original cost devices, and yet they may give radically different material costs and costs of sales. First-in, first-out makes the balance sheet more current and leaves the profit and loss statement partially obsolete because of the inclusion of the oldest costs; last-in, first-out tends to bring the profit and loss figures up to date but leaves in the balance sheet figures not related to current replacement costs. As to labor, the distinction between direct and indirect labor involves a good deal of discretion. One factory may throw a type of labor into factory overhead while another may use a more detailed analysis and distribute the cost as direct labor. Then when we come to the problem of overhead allocation, the possible variations are numerous. One plant may treat an item as factory overhead while another may treat it as administrative expense. Not only are there various methods of spreading a given amount of overhead to various products, such as the direct labor

dollar, the direct labor hour, and the machine-hour methods, but there are the problems of allocation among various operating departments, the spreading of service department costs, and many other problems which make for non-uniformity.

We seldom compute total cost for inventory purposes. We rarely go beyond manufacturing cost even though costs of handling and storage are also parts of the total cost. In fact we do not always include even total manufacturing cost. Thus for a number of years the financial statements of a textile mill in North Carolina have included only direct material and direct labor in its inventory and make no addition for even factory overhead. This admittedly gives an understatement of cost for balance sheet purposes, but it has little effect upon the profit and loss statement since opening and closing inventories are similarly affected. These statements have been certified by a nationally known firm of public accountants. For a number of years they have merely made a footnote statement indicating the valuation method used by the company. More recently they have been indicating the effect upon the net profit as compared with more conventional technique, and the amount involved is not great as long as the beginning and closing inventories are not too far apart. While we need not advocate the general adoption of this method, it does serve to illustrate the point that there are various ways of handling the problem of inventory valuation and that consistency is the most important point as far as the net income is concerned.

The calculation of inventory values for materials and supplies, work in process, and finished product, then, is one of the essential requirements of a cost accounting system. If we have a system worthy of the name, the cost of materials used, product completed, and goods sold will emerge as a routine part of the bookkeeping procedure, and the inventories will be the balance left in the asset accounts. The only additional work will be adjustments to take care of discrepancies between physical and book inventories, changes in valuation to allow for obsolescence and deterioration, the application of "cost or market" or other such transactions. If, as is altogether too often the case, we do not have adequate perpetual inventory systems, the cost calculations have to be made at least in part as a separate calculation independent of the bookkeeping records proper. In such a situation we have to do a lot

of sophisticated guessing, especially in connection with work in process and finished goods. Raw material inventories are then valued on the basis of a physical inventory with losses, shrinkages, and the like buried in the cost of materials used. But, no matter how we do it, once the inventory values have been produced the profit and loss statement and the balance sheet can be prepared, and we are inclined to sit back and relax, thinking that our job is done for this month or year and we can start over again for the next period. Actually, the least important function of cost accounting has been performed. The more significant contributions of the cost accountant are often made entirely apart from the regular financial statements and often with the application of quite different accounting principles.

Relation of Costs to Selling Price

It is often said that one of the important functions of cost accounting is to furnish a cost upon which the selling price is based. There appears to be more misunderstanding about the relationship between cost and selling price than there is in connection with almost any other matter related to cost accounting. The naive notion is widespread that once we have determined a cost for our product, the selling price is determined merely by adding a customary margin of profit. While no generalization would be wholly true, it is probably closer to the truth to say that costs are determined by selling prices rather than selling prices being determined by costs. The problem is well stated in an article in a trade publication written by a former head of a branch of OPA. He came to OPA from the household furnishings field and after having had a couple of years of experience struggling with pricing problems in that area he said: "I am by now convinced that a goodly percentage of American industry prices its output by guesswork, by crystal gazing, by competition, by any rote except concrete accounting practice." He was thinking, apparently, of the lack of good cost accounting records, but even with the best of accounting data we should still find that the relationship between cost and selling price is anything but intimate.

One important complicating factor in this problem is that of volume. Suppose we are trying to budget the sales and production of an item for next year. We go to the sales manager and

ask how many units he expects to be able to sell, and he will naturally say, "Well, that depends upon the price." Then we go to the cost accountant and ask about the cost and he will say, "That depends upon the volume." We seem to be getting nowhere. The difficulty is that the various elements of cost vary in many different degrees in their relationship to volume. Some, such as real estate taxes, remain the same regardless of the volume of production, until the capacity of the present plant is reached. Others, such as direct labor, vary more directly with the volume of production. We often speak of fixed and variable costs as though they were two distinct groups, but actually individual items of cost vary a great deal in this respect. For example, foremen's salaries constitute a fixed cost for a much shorter period than the salary of a factory superintendent; as the labor force increases several foremen will be needed before it becomes necessary to add another superintendent.

Production costs per unit tend to decline as the volume of production increases, but a time eventually will come when the unit cost starts upward. Many three-shift operations are undoubtedly incurring a higher unit cost than one and two-shift operations. There is inadequate time for plant maintenance; the supervisory and administrative problems become disproportionately large; and as the labor force increases, the supply of well-trained and efficient employees becomes less. Many other such factors could be cited as reasons for the increasing unit cost. These phenomena of increasing and decreasing unit costs are found not only in production costs, but they are also present in connection with distribution costs. Advertising and sales promotion may be very effective for a time, but eventually the point is reached where more money spent in this way will be wasted. Sales costs also have fixed and variable features the same as production costs. The problem is to try to find the most profitable volume, and this may be at a point which is in the stage of decreasing unit production costs and increasing unit sales costs or at some other combination of cost factors. It will be neither the highest nor the lowest possible selling price. It is necessarily a trial and error process, and the problem is one which never has a final answer, due to the changes which take place in the individual elements of cost. It is anything but a simple relationship.

Special Considerations

Another reason why the relation of cost to price is complex is the great prevalence of by-products and joint products. There are few important examples in modern production or distribution where all costs or even any great proportion of the costs can be identified with a single product. When more than one product emerges from a joint process, it is literally true that we have no way of calculating the cost of each one in any true or absolute sense. One of the most common ways of resolving the difficulty and coming out with some figures which can be used for bookkeeping purposes is to allocate the joint cost in proportion to the sales values of the respective products. There is nothing fundamentally wrong with this procedure, except that it is admittedly arbitrary; but at least it removes much of the plausibility from the notion that costs determine selling prices.

Even in retailing, where it appears to be a common practice to use standard mark-ups over cost in pricing goods, this practice is nothing more than a rule-of-thumb which tends to conceal what really goes on. The real principle which is followed is to charge what the traffic will bear in the sense of finding the most profitable price which may well be a low rather than a high price. The longer goods stay in stock, the more cost they incur for storage, insurance, financing, and so on, but, instead of raising prices to allow for these costs, the price is lowered in order to get rid of the goods. In this type of case it is entirely true that the greater the cost, the lower the selling price.

Control Over Prices

If we look behind the surface of convenient habits which are established in order to facilitate the day-to-day pricing of goods, we find that the selling price is to a considerable extent beyond the control of the seller. The degree to which the price is set for him will vary from the extreme of basic agricultural products where prices are, in normal times, determined in national or international markets, to the case of a manufacturer of a specialized patented gadget on which he has a complete monopoly. In very few instances is the seller free to find his most profitable monopoly price. If a general statement must be made, it would be to the

effect that in the typical case the need for costs is not to determine selling prices, but to determine whether or not costs are being kept below selling prices over which the seller has little or no control. Costs, then, are related to selling prices, but it is a complex relationship, not a simple one.

It is worth noting that, insofar as costs are significant in relation to prices, those which typically go through the accounts and determine inventory values are of little significance during periods of rising or falling price levels. It is cost of reproduction which may have some relationship to selling prices. In fact, for almost any type of cost analysis, costs of the immediate future are superior to past costs.

Elimination of Unprofitable Lines

One of the most important problems of business management, to the solution of which the cost accountant can make a real contribution, is the direction of production and sales effort in the most profitable directions. A manufacturer will want to add more profitable and drop less profitable items. Attempts are made to find the most profitable territories and outlets for sales effort. Department stores try to find the most profitable combinations of departments. The general problem is that of alternative opportunities. During a war or other boom period, the alternatives are more numerous than in normal times. A good many things have disappeared from the market, and others have had proportionately large price increases because they were "fillers" or side-lines before. Cheap clothing is an example. Some items were produced during off seasons or in certain localities where materials or labor were available at low prices. The wood fuel situation in the Pacific northwest has been critical during the war, because farmers and other people who used to cut wood during the winter as a spare-time occupation have been earning high wages the year round in the war industries. For the past few years there has been little seasonal variation in production, and most plants could work up to capacity at the most profitable lines of production. More remote communities have been left without many types of goods during the war because all of the production could be sold at near-by places. We have had much trouble keeping parts of

Arizona, Nevada, and even a place off the main railroad lines like San Diego, supplied with food and other items which they normally were able to get without much trouble. In normal times these remote places were frequently serviced at the same price as the cities, the seller absorbing the added transportation cost in order to keep up his volume of production.

Direct and Indirect Costs

A great deal of effort can be wasted in handling this problem of finding the most profitable alternatives if we insist upon calculating *total* cost, that is, if we try to assign completely all factory and general administrative and selling overhead. The distinction between direct and indirect costs is important here, and we obtain the maximum benefit from our calculations if we merely ask: how much is each product or department contributing toward the indirect overhead costs. One item may be more or less profitable than another but it is not correct to speak of it as unprofitable if its selling price covers all of the direct costs, that is, those costs which would not be incurred if the product were not manufactured, or if the department were not operated. Unit direct costs can generally be computed with much greater accuracy than unit indirect costs, so our decisions are apt to be much better if we base them upon this excess of selling price over direct cost, rather than upon the excess of selling price over total cost which involves a good many arbitrary allocations.

This application of cost accounting, the elimination of unprofitable or less profitable lines, also requires the use of costs of the immediate future rather than past or historical costs. The unit costs which emerge from the conventional cost accounting system must be used with considerable care when the problem of dropping a product or service is under consideration. Not only do they include more or less arbitrary overhead allocations and not only do they omit anything for selling and administrative costs, but they are usually based upon past costs which may or may not correspond to costs to be incurred in the next accounting period. Problems such as these must be solved somewhat apart from the day-to-day bookkeeping and cost accounting procedures. They require special studies, predictions of future price and wage trends, calculations of alternatives, and so on.

Contribution to Net Income

Another principle which is of interest here is that of so-called "sunk" costs. If, for example, an expensive special purpose machine tool has been purchased to turn out a special product, depreciation on this machine tool would be a direct cost of the item; but if it turned out that the product could not sell for enough to cover all of its costs, it does not necessarily follow that it should be abandoned immediately. Depreciation on the machine may have to be ignored in any such decision, and if other direct costs are covered, the only consideration is that the machine could be sold for scrap metal. Many fixed costs are of this type. This point will be of considerable importance in the postwar period. There will be many examples of excessive plant capacity where serious mistakes will be made if decisions are based upon total book costs.

Another factor which is ordinarily ignored in conventional cost accounting, but which may be of considerable importance in this type of problem, is interest on the investment. We cannot choose between one product and another, or one method of production and another, if we ignore the fact that one may require a large investment in equipment and the other a small investment. We may have perfectly good reasons for not bringing interest on investment into our regular cost and income calculations, but we should certainly be misled if we ignored it at this point.

The cost accountant, then, must be ready to advise the management as to which products, lines, or departments are really making the greatest contribution to the net income of the business. The final decision, of course, is not based entirely upon such cost data. It may be necessary to continue an unprofitable item in order to have a complete line of goods. It may be necessary to operate an unprofitable department in a store in order to bring people into the store; in other words, the loss on this department may be considered in the nature of general advertising. An item may appear to be highly profitable, but it may involve great risks, as far as the future is concerned, which may lead to its abandonment as a present project.

Improvement of Efficiency

One of the greatest contributions which cost accounting can make to business management is to provide information which, if

followed up, will improve the efficiency of operations. Perpetual inventory records, which are an integral part of a cost accounting system, will not, as it is sometimes claimed, prevent such losses as those arising from theft, but they permit a comparison between book inventories and physical inventories which discloses such irregularities and warns the management that things are not as they should be.

The development of standard cost procedures permits several efficiency checks to be made. If material is taken in at standard cost, the difference or variance between standard and actual cost may indicate inefficiencies in purchasing. If material is charged to production at standard quantities, the difference between standard and actual quantities used may indicate inefficiencies in using material. If standard time is compared with actual labor time, the difference may indicate inefficiencies in labor performance. If standard overhead is charged to production, the effect of idle time and other such variations in efficiency can be disclosed.

All the way through our cost accounting records we have opportunities to make useful comparisons. In general, physical production data are better than dollars and cents statistics, since they are not complicated by price and wage changes. This type of anaylsis requires special reports and effort beyond the regular daily bookkeeping activity, but it provides a fruitful field for very useful analysis. It is important, however, to make sure that the reports which we prepare are understood and used by management executives. Probably every office has reports which are carefully prepared month after month but never used. This is especially true of larger enterprises. Someone had an idea ten years ago and started a report, and no one has ever canceled it even though its usefulness is over.

Summary

There is much more that could be said about the fundamentals of cost accounting. We could, for example, dig into such things as methods of overhead allocation, methods of handling depreciation, and others equally important and interesting, but the points made here will do to bring out the main point which is this: We must try to see cost accounting built up into a tool of management which is given recognition to a much greater extent than it is

today. The time must come when students at our universities will consider industrial and distribution cost accounting as a field worth exploring and developing on a professional basis. As it is, they tend to go into other fields because cost accounting seems to offer so little in the way of opportunity and compensation. Actually cost accounting offers opportunities to work on the most intimate and significant problems of business management, and the cost accountant should be one of the key executives in a business organization. In the postwar period we shall need the best guidance that cost accounting can give business management to meet the problems connected with reconversion, the introduction of new products, and the multitude of critical decisions which must be made during the economic upheaval which inevitably will occur.

Before this can happen, however, business management must be educated as to the possibilities of cost accounting and analysis, and must raise its sights as to salaries and qualifications of its cost accountants. Cost accounting must be accepted as more than the keeping of perpetual inventories, payrolls, and cost sheets; cost accounting must go beyond the calculation of inventory costs; it must get into the broader economic problems of business management, into the determination of profitable lines, into the problems of comparative efficiency, and, in general, really make itself indispensable.

Statistics on Section 722 Claims—According to the Annual Report of the Commissioner of Internal Revenue for the fiscal year ended June 30, 1944, 29,507 Section 722 claims have been filed from 1940 to date. Of this number only about 3,200 have been disposed of, and of these approximately 1,850 were either eliminated by the findings of the internal revenue agents or were withdrawn by the applicants.

* * * * *

Greater Use Urged of Pretermination Agreements—The War and Navy Departments are urging that more contractors make use of pretermination agreements. It is reported that the War Department is now negotiating more than 5,000 such agreements as compared with about 400 in December. A detailed procedure for effecting agreements of this type will be included in a revision of the joint termination regulation scheduled to appear in April.

STANDARD COSTS AS AN AID TO MANAGEMENT

By Thomas H. Patterson, Supervisor of Cost Accounting, Armstrong Cork Co., Lancaster, Pa.

THE intelligent and profitable use of cost information depends upon a number of things, among which are sound accounting procedure, skillful presentation of the facts by the accountant, and the ability of the management to take vigorous action to correct unsound operating conditions when such action is necessary. There must likewise be mutual understanding and respect between the accounting branch of the business and the operating end. There is no way to get such respect except to earn it. As applied to the accountant, he must use his imagination sufficiently to place himself in the position of the individual who will receive the accounting information, and then ask himself, "What facts would I need to know if I were making a decision on this question?" and, in doing so, it is altogether likely that he will free his report from as much technical language as is possible, consider the facts he has, and come to some conclusion of his own as to the desirable action to be taken. If such a conclusion is tactfully made as a recommendation when the report is presented, it will be appreciated rather than resented by the recipient. It is true, of course, that many of the reports prepared by accountants are repetitive and a part of the daily routine, and no need arises for special analyses of such reports because they are, as a rule, properly designed to give the important facts in a simple manner.

Requisites of a Standard Cost System

The ability to prepare useful cost information is dependent upon the facts available, and they in turn must be secured accurately at the source. To do this requires some sort of orderly procedure, which in the accounting profession is often known as a "cost system." Incidentally, the rapid turnover in personnel during the past year has demonstrated the truth of the assertion that no system is any better than the people who operate it. An adequate system of cost accounting should make it possible:

1. To record accurate statistics of what has been done, and have the information available for use when needed,

2. To provide the basis for forecasting profits on a given volume of sales so that the management will know within reasonable limits what the future has in store, and
3. To assist in controlling costs of production and sales.

The tools for doing these things are found in standard cost procedures, and consist of:

1. Standard purchase prices for the materials to be used in the manufactured product.
2. Material utilization standards of sufficient detail to measure responsibility by foremen, supervisors, etc.
3. Direct labor standards tied in with the rate of wages paid at the time the standards are set.
4. Flexible factory and sales expense budgets; this implies that the fixed and variable factors are separate items of expense allowed.
5. Adoption of a burden absorption volume, which is preferably at the rate of sales the business has demonstrated it can average over a business cycle. Lacking such information, the burden absorption volume should be a reasonable rate of activity for the capacity on hand.
6. Calculation of profits by commodity groups forecasted for ensuing period (usually the next 12 months).
7. Preparation of an actual commodity profit and loss report by months, so that actual results can be followed currently.

Material Price Standards

Taking up these various requirements one by one, we will start with the purchase prices to be used as standard for the period. This is normally the function of the purchasing department, although it is usually desirable for the controller to have an opportunity to pass on the prices for the important materials purchased. To that end, the rates submitted by the purchasing department by items may be bound in a small folder with places for signature by both the head of the purchasing department and the controller. The use of standard purchase costs keeps the price variance of materials used in production from affecting other factory variances caused by utilization of the materials, and thus keeps the factor

of fluctuating purchase cost as the responsibility of the purchasing department. In short, the difference between the standard purchase costs, and the amounts actually paid, is accounted for as a purchase variance and charged to profit or loss as the materials are used.

These variances are not accepted, *per se,* as evidence that the purchasing department did a bad or good job of purchasing if the actual costs are greater or less than standard. It is taken as evidence of an error in forecasting. There are many things affecting the prices of materials used in our business that are beyond the control of the purchasing department, and if too much criticism were made of a purchasing loss against standard, the natural reaction of the purchasing agent would be to make the next standards high enough to protect himself against any contingency. So we merely say to him that he is expected to make the estimate of standard costs as nearly on the nose as he can, and it has worked out to our advantage in eliminating inflated purchase standards from the profit forecasts.

Material Utilization Standards

These standards are prepared for each item manufactured for sale or use in another product that will be sold and are set up to follow exactly the flow of the product through the factory. It may be the responsibility of the laboratory or the industrial engineering departments, but whatever standard is set is approved by the foreman who has to make the item and also by the superintendent of the plant. These material utilization standards also include allowance for the normal amount of scrap or throwouts. The cost department's function in building these standards is to cost properly each material used, arranged in proper sequence according to the actual manufacturing procedure, and get subtotals at the work centers where standards will be measured against the actual costs in the operating reports. In our organization, the cost department does not originate any standard allowances but does assist in the setting of standards by furnishing statistical data regarding past performance to the laboratory or the industrial engineers. The purpose of this is to place the responsibility of building the standard specifications upon the people who will operate against these standards.

Direct Labor

The direct labor allowances are the responsibility of the industrial engineers, and the rates are set for products and for operations or work centers. These standard rates are applied to the work finished by each operation and include allowance for the standard amount of down or idle time. They do not include overtime costs, but this is not a factor in measuring labor performance because the actual overtime payments are segregated and charged to manufacturing expense.

Manufacturing Expense Budget

The manufacturing expense budgets are worked out in detail for each operation and include the items of controllable expense, such as supervision, indirect labor, maintenance costs, sundry supplies, etc. These budget details are calculated at stated activities which are rated as 100 per cent activity on the schedule appearing on the budget detail, and the amounts allowed are set up as monthly figures divided between the fixed totals and the variable items. The determination of the fixed portion of each source of expense has been calculated from records of current operations; the latter reflect the actual wages paid and the price level for materials purchased for maintenance, etc. These schedules of budget allowances are the responsibility of the director of the budget, but they are likewise approved by the foreman in charge and the superintendent of the factory before final acceptance.

The general factory expenses, salaries, and depreciation schedules, while they are a portion of the budget, are not considered the responsibility of the supervisor in each operation, and his approval is not asked for when budgets are set up for these items. Incidentally, the depreciation schedules in this company are worked out in great detail and are calculated for each machine and each building according to the character of machine, its use, and the amount spent for it originally.

Burden Absorption Volumes and Standard Burden Rates

Since many of our plants make a variety of commodities, it is necessary at the beginning of the calculation of standard burden to establish the burden absorption volume for the coming twelve months. In doing this, it is the endeavor of those working on the

problem to select a normal sales volume that can be attained by the company over a period of years with the result that sometimes the burden absorption volume is lower than the forecasted sales, and at other times, it is higher than the forecasted sales. Once the burden absorption volumes are selected by salable products, these activities are related to the factory operations required to make the products, and the whole table of activity in each operation is keyed in with the burden absorption volumes of salable products selected. These volumes are reviewed once a year, final approval of them resting with the controller and the sales managers of the various products sold.

After the operation activities have been calculated, these activity factors are then related to the budget schedule at 100 per cent activity, and the variable allowances are figured for the volume reflected by the burden absorption totals. To these variables are added the fixed amounts by source accounts, and the entire total of fixed and variable source accounts for which the operation head is responsible is set up. To this total is added the share of such items as electric power, steam for process or for heat, hydraulic power, compressors, and similar items that are general in their service and must be distributed to productive operations for application of costs. In the distribution of such service operations, the accountant sometimes has definite information, such as meter readings, but more frequently it is necessary for him to work with the engineering department and secure estimated figures for the distribution of items for which no direct measurement is available. Social Security taxes, group insurance, and similar charges are added to the departmental total, being separated as to fixed and variable items according to the total of wages or salaries on which they are paid. In other words, if the indirect labor were considered 50 per cent fixed and 50 per cent variable, the Social Security tax paid on this indirect labor likewise would be split as to 50 per cent fixed and 50 per cent variable.

Such operational totals are then divided by a factor that can be used in the application of these costs to products; it may be pounds, square yards, dollars of direct labor at standard, or machine hours, depending upon which factor is found to be the best by experience as an equitable method of application. The resulting standard burden rates are then applied as to fixed and variable expense by

the various operations required to make a product, and when the total factory cost has been completed, the standard shows a total unit cost for material, for labor, for fixed burden, for variable burden, and for the grand total of all four factors. The unit costs thus separated are very useful in the analysis of costs and in the forecasting of cost of sales as explained later in this article. In the monthly closings, however, the fixed and variable totals for expense absorption are not kept as separate factors but become a portion of the material cost as the products proceed from one operation to the other. For example, an item as it leaves the first operation may cost the following per piece:

Material	$.10
Direct labor	.02
Variable burden	.01
Fixed burden	.01
Total	$.14

The foreman who takes this item at the next operation and performs work on it receives it at the cost of $.14 which, as far as he is concerned, is 100 per cent material, and is so treated in our closing. In other words, any variance which he might have in handling the 14 cent item would be taken as a material variance even though it is actually composed of material, labor, and burden at its point of origin.

General Information Regarding Standards

The material, labor, and burden standards in this company are changed every twelve months, with the result that all deviations for a twelve-month period are measured against the same standards, even though changes in various factors may have occurred in the meantime. These changes, however, are recognized in setting up the new standards and, as a matter of fact, the new standards are compared with the actual performance over a test period before being finally adopted. As was stated at the beginning of this article, the material and labor standards are developed in the factory and are submitted by the factory manager. However, the controller passes on the final adoption of these standards, and to assist in this exercise of judgment, the new standards are applied against several recent months of production, and results show whether the new

standards are more or less than actual costs. If the comparison is close to the actual cost, and there is every reason to suppose that the actual costs are indicative of good management, the controller approves the new standard. On the other hand, if it has been shown that the factory performance during the test period is not up to par, then it is expected that the new standards will show a loss against actual performance; otherwise, they would not be approved. This comparison of new standards against actual production is not definite proof in itself that they are good standards since it is quite likely that changes in equipment, in formulation, or some other factor might be included in the new standard, although not as yet reflected in actual cost. When such is known to be the case, it is usually the explanation for the fact that the new standards are lower than the actual cost, since changes made in equipment are of necessity based upon more economical operation, which should reflect lower standards.

Forecast of Profits

In the preparation of the forecast of profits for the ensuing year, sales quantities are extended by the standard unit cost rates for material, labor, variable burden, and fixed burden, the total equaling the standard factory cost of sales for that volume. These forecasted costs are tabulated by commodity groups and to them are added the budgeted selling and commercial expenses for the coming year. The total at that point represents total standard factory cost plus the actual selling and commercial expense. Since the burden absorption volume is not necessarily the same as the forecasted volume, a further calculation is necessary at this point to show whether the factory burden is over- or underabsorbed at the sales volume carried. For example, if the sales volume is one million units and the burden absorption volume is 800,000 units, the standard cost of sales includes the fixed cost of 200,000 more units than are required to absorb the standard burden. Therefore, the overabsorption is 200,000 units times the fixed burden rate, which gives the total dollars of overabsorbed factory burden. That sum is taken as a profit in the forecast and so identified.

At the time the forecast has been completed by commodity groups, it is possible for the management to scan the results and see the profit forecast, not only for the entire plant, but for indi-

vidual commodity groups as well. Such knowledge ahead of the fact leads to corrective measures wherever desirable and possible, and this forms the basis of cost reduction programs for the coming year on items where the profits are not considered sufficient for the sales involved. In normal times, this may mean that additional engineering costs will be spent to determine more economical methods of manufacture, or it may mean new equipment that has been advisable but never considered absolutely necessary heretofore, or it may be that reductions can be made in advertising and selling expenses. In any event, the information contained in the forecasted profit and loss report is a very valuable aid to the management in planning their course for the future.

Actual Commodity Profit and Loss Report

Actual commodity profit and loss reports are prepared each month on the groups of commodities included in the forecasts, with comparisons being made showing the budgeted sales and the actual sales, the standard profit, and the variances from profit, this exhibit being set up in such a way that the factory variances are shown as separate items, the purchasing variance as a separate item, and the over- or underabsorbed burden because of volume as a separate item. This report is used for executive control and is an excellent summarization of the performance of the various company functions. Since the factory manager likewise receives a copy of the commodity profit and loss for the items made in his plant, he is kept informed of the profitability of the items he manufactured as well as of the effect of factory variances on the profit picture.

Factory Variance Statement

While the factory variances are known to the factory manager and to each foreman before the commodity profit and loss has been compiled for the month, he nevertheless gets a different appreciation of the effect of these variances when he sees his commodity profit and loss report. The variances that the factory managers get earlier in the month are the summarizations of the factory performance against the material and labor standards insofar as his direct labor and material usage performance is concerned, and a budget report showing the comparison of the standard expense

allowed for this activity for the month against the actual cost for the same.

The control of factory expense is by source account and by point of origin rather than by operation. By this is meant that the source accounts for which each operational foreman is responsible are charged to him, but other source accounts such as electricity, power, etc., which he uses but is not responsible for because they are the result of efforts made at other points in the plant, do not show on his report. For instance, in the plant where the electric power and steam heat are generated, the man in charge of the steam plant is responsible for the cost of the power and the cost of the steam, although if he overruns his cost, it is also true that the foreman using steam and electricity overruns his likewise. However, since it would be a waste of time to attempt to correct the excess cost at the point of usage (unless it is a matter of more kilowatts used than would normally be required), the point of attack is at the source of the expense, which is in the power plant itself. The reports showing these conditions are sent out as budget comparisons and, as stated above, the standard allowed is established on the basis of actual output for the month. In this respect likewise, the expense budget is geared to the number of units produced rather than to the time spent in producing them.

While the material, labor, and expense variances are calculated and sent back to the factory as quickly as possible, nevertheless, they are in themselves of no immediate help to the supervisor of a department since the events they record have already happened. Even if it were possible to submit reports on the day after the occurrence, it would still be too late to do anything about that day's performance, so it is obvious that the supervisor must have a standard of his own which is, of course, based on the standards he will be allowed, but which is more readily applied to his work as it progresses through his shop. For this purpose, it is not necessary for the foreman to know in dollars and cents how he is coming out against a standard, but it is essential for him to know that he must turn out a certain number of pieces in a certain length of time, or get a certain amount of yards out of a certain quantity of material, or whatever else his unit of measure would be in order to meet the standard. Knowing this, and with a few easily-secured checkup figures during the day, he can see how he is progressing

as production actually turns out through his department. If this is done and the foreman consistently hits his standard on his daily basis, it is certain that by the time the end of the month comes around, his production for the month will likewise be up to standard or better.

In conclusion, let us keep in mind that the way to get the most benefits from standard costs is to use the information at hand intelligently. Standard costs can be a great aid to management, although no substitute for it.

Determination of Ceiling Prices—A recent press release from the Office of Price Administration, dated March 12, sheds some official light on the principles governing that office's policies in passing upon application for price increases. The release is based on a statement by James F. Brownlee, deputy administrator for price. According to his statement, manufacturers are required to absorb cost increases unless their absorption would reduce an industry's over-all earnings below peacetime levels. A product standard is used in cases involving industries dealing in several commodities. Under the product standard, the ceiling price of a given commodity must be high enough to cover the *out-of-pocket*[1] costs of the industry generally.

With reference to retailers and wholesalers, price adjustment to cover suppliers' price increases will be made only when necessary (1) to permit an industry as a whole to maintain its earnings at peacetime levels, or (2) to prevent the margin on a commodity that does not represent all or most of a trade's volume from falling below the trade's operating expense rate. The statement sets up a concept of a "minimum margin" below which wholesaler and retailer margins on a particular commodity will not be reduced by absorption of supplier price increases. This margin is based on the lower of the current expense rate or the previous margin on the commodity. In determining the expense rate, no allowance is to be made for profit, or interest on a firm's own funds, or tolerance in anticipation of changes in operating costs or sales volume. According to Mr. Brownlee, OPA has always rejected the principle that ceiling prices must be high enough to provide a profit on each item in the belief that the profit position is protected by the over-all earnings standard.

[1] Italic supplied.

OUR OPEN FORUM

This section of the Bulletin is available to all for the informal discussion of technical matters of interest to our members. Included here will be comments on articles in Section I, ideas and suggestions arising out of these articles, and other correspondence in which our members are likely to be interested. The ideas expressed are those of the individual correspondents, and all shades of opinion will be welcomed to the extent that the ideas expressed are constructive and of general interest.

The Cost Accountant and Management

Editor, N. A. C. A. Bulletin:

Percy L. Proctor's paper on "Effective Cost Control—or Catastrophe," published in the February 1 *Bulletin*, is as refreshing as a cold shower in midsummer. It is packed with sound common sense and strikes directly at the chief faults of the profession. Mr. Proctor minces no words in calling cost accountants to task for—

1. Allowing themselves to be completely immersed in detail,
2. Preparing reports so complicated and laden with figures they defeat their own purpose, and
3. Failing to see their real responsibility and their real opportunity.

I think that cost accountants would do well to keep the article and reread it every six months to see how much of this criticism applies to them.

The publication of the paper was very timely, coming just when we are emerging from our annual burial under the tomb of year-end closing and inventory. It is high time that we took inventory of ourselves.

The attitude of management and of business men toward cost accountants in general is, I believe, shrewdly and accurately interpreted by Mr. Proctor. The cost accountant, at best, is considered as a skilled technician and no more. This is the sad thing for us. I have often wondered why more of top men in industry did not come from the ranks of cost accounting. Certainly if more of us were cost *accountants* and not *cost* accountants, a distinction which Mr. Proctor ably points out, I am sure that there would be more representation in industry's upper layer.

A cost *accountant* must be a skilled technician, plus. To do his job as it should be done he must constantly have his nose in practically every activity of the business, such as, new products, establishment of selling prices, plant and machine capacity, production problems, engineering projects, purchasing plans, maintenance programs, sales quotas, and labor policies; these constitute almost every major problem in which management is interested.

By aptitude and training the cost accountant calmly and objectively observes, analyzes, and interprets. By his constant association with management and his familiarity with its demands on him, he learns to view industry's problems through management's eyes and to talk their language. Who by training and experience should be better qualified to become management itself?

M. A. Huebsch,
Chicago Chapter.

A Sales Program for Cost Accountants

Editor, N. A. C. A. Bulletin:

Mr. Proctor's article, "Effective Cost Control—or Catastrophe," appearing in the February 1, 1945, *Bulletin*, is an indictment of those cost accountants who have not taken advantage of wartime accounting to stress the importance of the cost accountant's functions and the part that he should play in the management of the business. Too often the phrase is rightly used by production managers, "What do accountants know about manufacturing and the various labor operations and materials that go into the finished article?" Too often, during eighteen years of public practice, have I met cost accountants who have never made a complete trip through their plants to become familiar with each type of manufacturing operation. A short time ago, a glove company employed a cost accountant who had no prior experience in the glove business. One of his first assignments was to revise the standard cost records. This he proceeded to do without reviewing the manufacturing operations with the production department or without taking a trip through the plant to become familiar with glove making. The company had in its employ a time study engineer who was continually making time studies of operations and whose studies were used for determining piece rates and wage incentives for the company. This engineer was not consulted by the cost accountant. As a result, the accountant submitted cost figures to the management which were grossly incorrect, and further convinced the production manager that accountants did not know anything about cost.

Fortunately, however, not all cost accountants are as bad as the one illustrated. There are a great many accountants who are doing an outstanding job. They have and will continue to provide their company's management with correct interpretations of costs for their guidance in planning and controlling future costs. Mr. Proctor suggested that the cost accountant, in order to survive the postwar era, has a selling job to do, but he failed to outline his sales program. Here is a program that the accountant might follow:

1. First, stop using the word "control." The word has been overworked. We have wage controls, price controls, inventory controls, and many other controls exercised by the Federal Government for regulating business.

Management is tired of control, and no production manager likes the term "cost control." He does not expect to be controlled by the cost accountant's figures. Terms such as cost finding or cost determination might be more readily accepted by management.

2. Recognize the principle that cost figures of themselves do not control. They are merely a mirror or reflection of what has been accomplished. When intelligently compiled they are a guide to the management when planning future operations, whether the company be on an actual or standard cost basis. When discussing cost figures, use that approach to the management.

3. Remember that production men are not accountants, but that they do understand arithmetic, and, therefore, costs should be expressed in arithmetical terms. Consult the production manager on what terminology to use, or what figures he would like to have. In other words, give him an opportunity to have some part in the preparation of the cost figures, but above all give him figures that reflect true results, simply and intelligently expressed.

4. Get together with the production manager, engineers, and others dependent upon cost figures for guidance. Get their viewpoints, give them yours. Intelligent production managers recognize the importance of figures as a guide. Let them know that all the cost accountant wants to do is to give them figures which they can use, keeping uppermost in mind figures which represent true costs, simply stated. When the accountant breaks down the barrier that exists in many companies between accounting departments and production departments, he will have gone a long way toward making himself a valuable employee.

5. Take an interest in actual operations. Make frequent visits to the plant, notice the operations, materials used, etc.; become familiar with the jargon of the workers as applied to operations. In this way the accountant will become familiar with the plant terminology. For example, in one plant the term "busters" meant rejects, and the cost accountant in that plant classified the loss from rejects as "Buster Loss" in all of his cost records. If the accountant knows the plant jargon, he will be able to interpret the cost figures in language that can be understood by the production department. When he can talk the other fellow's language, the accountant will be able to sell his ideas much more readily than heretofore.

6. The last but most important part of the sales program is for the accountant to make certain that when compiling the cost figures or setting up standard rates, he has included in each cost the correct number of operations and classes of materials used. He should consult with the engineers and the production manager regarding the operations, etc. He should make certain that his cost figures are correct. He has the opportunity to do so. He knows what operating accounts are charged to the cost of production, and this information together with that obtained from the production manager and engineers should enable him to prepare cost figures which can be used intelligently by all those concerned with them.

The gist of this entire sales program is that the cost accountant should get together with the production department and break down the barrier that exists between them for their mutual interest. Once this is done, the accountant will be able to interpret cost figures in such a way that they will be readily understood and used by the chief executive for his guidance. If, through the use of those figures, the executive can guide his business profitably, the cost accountant then will have become a vital part of management, and his future will be assured.

J. D. Anderson,
Chicago Chapter.

Losses on Tangible Property Allowed in Renegotiation—Revision 16 of the Renegotiation Regulations provides in part that losses sustained, other than by sale or exchange, on tangible property used in performing renegotiable contracts or subcontracts will be allowed in renegotiation, for the year of loss, as an item of cost chargeable to renegotiable contracts or subcontracts. The amount of loss so chargeable is limited, however, to "an amount equal to that portion of such deduction which bears the same ratio to the whole of such deduction as the aggregate amount of depreciation or amortization on such property allocable to renegotiable business for all fiscal years of the contractor to the date of the incurring of such loss bears to the total amount of depreciation or amortization allowed or allowable on such property as deduction in computing taxable income of the contractor under the Internal Revenue Code for all taxable years to the date of incurring such loss."

A similar provision relating to losses from the sale or exchange of such assets is contained in an earlier revision, Number 14.

Chapter Meetings

April, 1945

Chapter Meeting Place	*Date*	*Subject and Speaker*
Akron Portage Hotel	17	*Cost and Management Reports* J. E. Caldwell, Comptroller, Goodyear Aircraft Corp.
Albany DeWitt Clinton Hotel	17	*Budgeting for Production Stabilization and Expense Control During the Postwar Period* E. S. LaRose, Controller and Production Director, Bausch & Lomb Optical Co.
Atlanta Atlanta Athletic Club	17	*Pension Trusts* Norman D. Cann, Deputy Commissioner, Bureau of Internal Revenue.
Baltimore Emerson Hotel	17	Panel Discussion: *Accounting Trends* Chairman: Charles W. Burton, Jr., Anchor Post Fence Co.
Binghampton Arlington Hotel	12	*Government Regulations of Cost Accounting* Neil G. Harrison, Attorney, Binghamton.
Hotel Langwell, Elmira	26	*Cost and Profits* Wyman P. Fiske, Secretary, National Association of Cost Accountants.
Birmingham Hotel Thomas Jefferson	17	*The Principles and Application of Internal Control* T. B. Noble, Stockham Pipe Fittings Co.
Boston Hotel Vendome	18	*Work Simplification in Industrial Accounting* Thomas L. Morison, Assistant Treasurer, Staples Coal Co.
Bridgeport Stratfield Hotel	19	*Standard Costs in the Reconversion Period* Gould L. Harris, Associate Professor of Accounting, School of Commerce, Accounts, and Finance, New York University.
Brooklyn Central Branch, Y. M. C. A.	18	*Job Evaluation, Salary Ranges, Merit Rating, Incentives and Their Relation to Accounting Department* N. L. Martucci, Personnel General Administration, Radio Corporation of America.
Buffalo Church of the Covenant Auditorium	26	*Cost Accounting and Business Survival* Herbert T. McAnley, Partner, Ernst & Ernst.
Cedar Rapids Roosevelt Hotel	25	*The Relation of Cost Accounting to General Accounting* S. G. Winter, Professor and Head of Accounting Department, College of Commerce, University of Iowa.

Chapter Meeting Place	*Date*	*Subject and Speaker*
Chattanooga Hotel Patten	19	*Job Evaluation* Ernest P. West, Standard-Coosa Thatcher Co.
Chicago Furniture Club of Amer., Amer. Furniture Mart	26	*Cost Control for Profit Making* W. S. Ford, Vice President, Trundle Engineering Co.
Cincinnati Hotel Gibson	19	*Current Inventory Problems* Benedict M. Sayre, B. M. Sayre & Co.
Cleveland Carter Hotel	19	*Costing and Pricing Consumer Goods* W. M. Bechler, Assistant Controller, The B. F. Goodrich Co.
Columbus Fort Hayes Hotel	16	Panel Discussion: *Duties and Responsibilities of Industrial Controllers* Panel Members: Robert Rudy, Comptroller, Summer & Co.; Harry Edwards, Comptroller, F. & R. Lazarus & Co.; Rowland Lutz, Assistant Controller, Columbus Coated Fabrics Co.
Cuba	27	*The Importance of a Knowledge of Jurisprudence in Connection with Tax Matters* Dr. Jorge Navarrete Y. Sierra, Lawyer, Rosales, Gorrin & Mañas.
Dallas Melrose Hotel	20	*Streamlined Job Costs* H. J. Hagan, Assistant General Manager, Well Equipment Co.
Dayton Van Cleve Hotel	10	*Application of Costing Principles* Frank A. Boettger, Comptroller, Cessna Aircraft Co.
Decatur Leland Hotel, Springfield	19	*Job Evaluation* Oliver Etheridge, Methods Superintendent, A. E. Staley Mfg. Co.
Denver Cosmopolitan Hotel	17	*Beet Sugar in the War* Frank A. Kemp, President and General Manager, The Great Western Sugar Co.
Des Moines Younker's Tea Room	19	*What Do You Mean by Cost Accounting?* Clement G. Ewertz, Industrial Engineers, Inc.
Detroit Detroit-Leland Hotel	19	*Resolved That Federal Taxes on Corporate Income Should Be Abolished as a Post-war Fiscal Policy.* Ninth Annual Debate. Michigan State College: Affirmative Wayne University: Negative
Erie Blue Room, L. O. O. M.	16	*Production and Manufacturing Control* W. E. Crotsley, Director of Education on Manufacturing Control, International Business Machines Corp.
Evansville McCurdy Hotel	19	*Problems in the Development of a Small Business* Stanley A. Pressler, Director of War Training, School of Business, Indiana University.

Chapter Meeting Place	Date	Subject and Speaker
Fort Wayne Chamber of Commerce	17	*Labor Relations and Labor Costs* John Riegel, Director, Industrial Relations, University of Michigan.
Grand Rapids Rowe Hotel	17	*Time Study and Cost Control* H. K. von Kaas, Industrial Engineer, Globe Union, Inc.
Greenwich Hugo's Piccadilly Restaurant, Stamford.	17	*Depreciation* Donald P. Sweetser, Stevenson, Jordan & Harrison, Inc.
Hagerstown Alexander Hotel	26	*Unscrambling Property Accounts After the War* A. B. Hossack, Vice President, American Appraisal Co.
Hampton Roads Albany Restaurant. Norfolk	20	*Modern Applications of Cost Accounting* Eric A. Camman, Partner, Peat, Marwick, Mitchell & Co.
Harrisburg Penn-Harris Hotel	17	*Business and Accounting Methods in the Americas to the South* Fred Lehn, Foreign Manager, Underwood-Elliott Fisher Co.
Hartford Elm Tree Inn, Farmington	17	*Executive Reports for Competitive Enterprise* Martin A. Moore, Comptroller, Hyatt Bearings Div., General Motors Corp.
Hawaii Commercial Club	3	Subject and speaker to be announced.
Houston Y. M. C. A.	18	*Accounting Problems in Recycling Operations* John J. Carter, Assistant Chief Clerk, Gas Div., Humble Oil & Refining Co.
Indianapolis Lincoln Hotel	18	*The Importance of Costs to Management* N. L. McCully, Controller, Bauer & Black.
Jackson Heidelberg Hotel	19	*Pension Trusts for Small Businesses.* Hal Canary, C.P.A., Memphis.
Jamestown Hotel Jamestown	17	*Job Evaluation and Wage Incentives* Dr. Charles Reitell, Stevenson, Jordan & Harrison, Inc.
Kansas City Hotel President	16	*Distribution Costs* G. H. Armstrong, Manager of Special Research Dept., International Business Machines Corp.
Lancaster Hotel Brunswick	27	*The Importance of Property Investment Control* A. B. Hossack, Vice President, American Appraisal Co.
Lehigh Valley Hotel Easton, Easton	20	*Job Evaluation and Wage Incentives* Dr. Charles Reitell, Stevenson, Jordan & Harrison, Inc.

Chapter Meeting Place	*Date*	*Subject and Speaker*
Los Angeles Scully's Restaurant	17	*Are Postwar Price and Production Controls Necessary?* Dr. Arthur G. Coons, Professor of Economics and Dean of the Faculty, Occidental College.
Louisville Brown Hotel	17	*The Accountant's Function in Personnel Control* Harold A. Wright, McKinsey, Kearney & Co.
Maine (State of) Lafayette Hotel, Portland	20	*Cost Problems of the Postwar Period* Fred C. Thurston, American Optical Co.
Memphis Hotel Gayoso	18	*Machine Accounting* Eugene Sebulsky, Controller, Sam Shainberg Dry Goods Co.
Milwaukee Milwaukee Athletic Club	16	*Accounting of Price Control, Now and Postwar* Paul M. Green, Director of Accounting, Office of Price Administration.
Minneapolis Curtis Hotel	17	*Who profits from Profit* Roland A. Stearns, Currie & Gherman.
Nashville Andrew Jackson Hotel	10	*Railroad Accounting* Earl E. Breese, Assistant to President, Tennessee Central Railway.
Newark Hotel Robert Treat	26	*Effective Use of Hands: Clock and Human* Allan H. Mogensen, Editorial Staff, *Factory*.
New Hampshire Carpenter Hotel, Manchester	10	*Inventories During the War and Postwar Periods and the Effect on Credit Standing* George C. Carter, Dun & Bradstreet, Inc.
New Haven Graduates Club	24	*Unemployment Insurance—Merit Rating System* James J. Graham, Acting Executive Director, State of Connecticut Department of Labor and Factory Inspection.
New Orleans Jung Hotel	18	*Presentation and Analysis of Cost Statements* Otis J. Chamberlain, Partner, Barton, Pilié Seré, and Wermuth.
New York Hotel New Yorker	23	*The Effects of Accounting Practices Used in Determining Taxable Income on Business Operations* Dr. Joseph J. Klein, Partner, Klein, Hinds & Finke. Panel Members: William W. Werntz, Chief Accountant, SEC, and Thomas Tarleau, Wilkie, Owen, Otis, Farr & Gallagher.
Peoria Jefferson Hotel	18	*What Management Expects from the Cost Department* Howard C. Greer, Vice President and General Manager, Kingan & Co.

Chapter Meeting Place	Date	Subject and Speaker
Philadelphia Kugler's Chestnut St. Restaurant	19	*Cost Determination vs. Cost Control* Dr. Adolph Matz, Cost Analyst, Edward G. Budd Mfg. Co.
Pittsburgh Fort Pitt Hotel	18	*Variable Budget in Management by Exception* Fred V. Gardner, Senior Partner, Fred V. Gardner & Associates.
Portland Heathman Hotel	17	*Ice Packs for Cost Accountants* Frank S. Hecox, Secretary-Treasurer, Iron Fireman Mfg. Co.
Providence Crown Hotel	16	*Cost Problems Connected with Selling in Post-war Era* Robert L. Stevenson, Vice President, Remington Rand, Inc.
Reading Wyomissing Club	20	*Industry Looks to the Future* H. P. Alspaugh, Radio Corporation of America.
Richmond Hotel John Marshall	24	*Telephone Accounting* Robert W. Michie, Auditor, Chesapeake & Potomac Telephone Co.
Rochester Seneca Hotel	18	*Wages in Wartime and After* Dr. Lloyd Reynolds, Associate Professor of Political Economy, Johns Hopkins University.
Rockford Hotel Faust	19	*Accounting Reports for Executives* W. S. Deeming, Partner, Scovell, Wellington & Co.
Saginaw Valley Wenonah Hotel, Bay City.	16	*Preservation, Storage, and Destruction of Records* Otto K. Jensen, State Examiner, State Board of Accounts, Indianapolis, Ind.
St. Louis Hotel Coronado	17	*What Management Expects from the Cost Accountant* Howard C. Greer, Vice President and General Manager, Kingan & Co.
San Francisco Engineer's Club	24	*The Federal Reserve Bank* H. F. Slade, Vice President, Federal Reserve Bank of San Francisco.
Scranton Hotel Casey	16	*A Case Study of the Standard Cost System* Earl A. Green, Chief Auditor, Armstrong Cork Co.
South Bend LaSalle Hotel	17	*Principles and Applications of Keysort* A. J. Bodary, Educational Director, The McBee Co.
Springfield Hotel Sheraton	18	*Inventory Under Current Conditions* C. Howard Knapp, Industrial Engineer, Stevenson, Jordan & Harrison, Inc.

Chapter *Meeting Place*	*Date*	*Subject and Speaker*
Syracuse Hotel Syracuse	19	*Recent Developments in Renegotiation* W. A. Boyle, Controller, U. S. Hoffman Machinery Corp.
Toledo Secor Hotel	17	*Recent Developments in the Field of Accounting* W. E. Dickerson, Professor of Accounting, Ohio State University.
Tri-Cities Hotel Fort Armstrong, Rock Island, Ill.	17	*Late Developments on Termination of War Contracts* George D. Bailey, Partner, Ernst & Ernst.
Tulsa Mayo Hotel	18	*Accounting Statements* Parry Barnes, Lunsford, Barnes & Co.
Utica Hotel Hamilton	9	*Corporation Insurance Coverage* T. C. Brady, Vice President and Treasurer, Brewster-Badeau & Co., Inc.
Wabash Valley Terre Haute House	10	*Accounting in the Coal Industry* John D. Clouse, Comptroller, Walter Bledsoe & Co.
Washington Washington Hotel	18	*Investigative Accounting* Lee R. Pennington, Federal Bureau of Investigation.
Wichita Broadview Hotel	17	*Postwar Industrial Financing* Arthur W. Kincade, President, Fourth National Bank, Wichita.
Williamsport Lycoming Hotel	9	*Cost Accounting Under War Conditions—What Have We Learned?* A. R. Kassander, Lybrand, Ross Bros. & Montgomery.
Worcester Bancroft Hotel	12	*Inventory Control and Pricing* Clarence B. Nickerson, Associate Professor of Accounting, Graduate School of Business Administration, Harvard University.
York Hotel Yorktowne	18	*Reconverting the Cost Accounting from War to Peace* Clinton W. Bennett, Partner, Cooley & Marvin.
Youngstown Tippecanoe Country Club	18	*Problems Involved in Pricing Postwar Products* Albert E. Grover, Senior Cost Systematizer, Thompson Aircraft Products Co.

CURRENT COST LITERATURE

This listing, published on the first of each month, contains all the available references to cost articles and cost material published for the most part during the past month. References are secured from periodicals received at National Headquarters.

To secure a copy of any of the publications here referred to order direct from the publisher. Addresses of periodicals referred to will be found at the end of the references listed.

ACCOUNTING

Sanders, T. H. *Accounting Principles—American and British.* Journal of Accountancy. February, 1945, pp. 112-23.

BANKS AND BANKING—COSTS

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